

**THIRD TAXING DISTRICT
CITY OF NORWALK, CONNECTICUT**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEAR:
JULY 1, 2017 - JUNE 30, 2018**

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	3
MANAGEMENT DISCUSSION AND ANALYSIS	6
BASIC FINANCIAL STATEMENTS	
GOVERNMENT WIDE FINANCIAL STATEMENTS	
A Statement of Net Position	12
B Statement of Activities	13
FUND FINANCIAL STATEMENTS	
C Balance Sheet - Governmental Funds	14
D Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	16
E Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	17
F Statement of Revenues, Expenditures and Changes in Fund Balance - Budgetary Basis - Budget and Actual - General Fund	18
G Statement of Revenues, Expenditures and Changes in Fund Balance - Budgetary Basis - Budget and Actual - Special Revenue Fund	19
H Statement of Net Position - Proprietary Fund	20
I Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund	21
J Statement of Cash Flows - Proprietary Fund	22
K Statement of Plan Net Position - Pension Trust Fund	23
L Statement of Changes in Plan Net Position - Pension Trust Fund	24

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

TABLE OF CONTENTS

	Page
NOTES TO BASIC FINANCIAL STATEMENTS	25
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Changes in the District's Net Pension Liability and Related Ratios	61
Schedule of Net Pension Liability	62
Schedule of District Contributions – Pension Trust Fund	63
Schedule of Investment Returns – Pension Trust Fund	64
Schedule of Changes in the Total OPEB Liability and Related Ratios	65
Schedule of Changes in the Total OPEB Liability	66
SUPPLEMENTARY COMBINING AND INDIVIDUAL FUND SCHEDULES	
Schedule of Utility Plant	67
Schedule of Various Operating Expenses	68
Schedule of Various Administrative Expenses	69

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

INDEPENDENT AUDITOR'S REPORT



INDEPENDENT AUDITOR'S REPORT

The Honorable Commissioners
Third Taxing District - City of Norwalk
East Norwalk, Connecticut

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Third Taxing District - City of Norwalk, Connecticut, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the East Norwalk Improvement Association, Inc., (Special Revenue – Library) a blended component unit, which represents 9.1%, 9.4%, and 42.9%, respectively, of the assets, net position, and revenues of Governmental Activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Special Revenue Fund, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT

Continued...

Auditor's Responsibility - Continued

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Third Taxing District – City of Norwalk, Connecticut as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the general fund and the special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 11 and pension plan and other post-employment benefits required supplementary information on pages 61 through 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

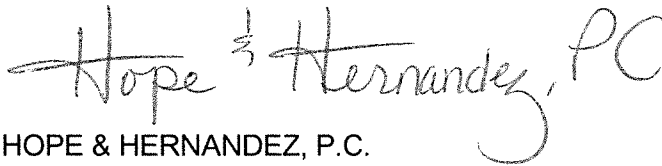
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary combining and individual fund schedules, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

INDEPENDENT AUDITOR'S REPORT

Continued...

Other Information - Continued

The combining and individual fund supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual fund schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in cursive script that reads "Hope & Hernandez, P.C.".

HOPE & HERNANDEZ, P.C.
Bridgeport, Connecticut
October 26, 2018

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

MANAGEMENT DISCUSSION AND ANALYSIS

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018. The discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's net position, and (d) identify individual fund issues or concerns.

Since the Management Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the District's financial statements, which immediately follow this section.

Using this Annual Report

The Third Taxing District of the City of Norwalk implemented the reporting requirements outlined in GASB 34 effective July 1, 2003. The financial statements' focus is on both the District as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions and enhance the District's accountability to the public.

Government-Wide Financial Statements

The government-wide financial statements (see pages 12 and 13) are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns which add to a total for the Primary Government. The focus of the Statement of Net Position (the "Unrestricted Net Position") is designed to be similar to bottom line results for the District and its governmental activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. The Statement of Activities combines all of the District's revenues and expenses in a single statement.

The two government-wide statements noted above, report the District's net position and how they have changed. Net position (the District's assets plus deferred outflows of resources, less liabilities and deferred inflows of resources), is one way to measure the District's financial health or position and to see the direction in which the District is heading.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- While analyzing the overall financial health of the District, one needs to consider additional factors such as changes in the District's proprietary fund (Electric Department) customer base and usage patterns, as well as, the conditions of the District's infrastructure assets.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

MANAGEMENT DISCUSSION AND ANALYSIS - Continued

Government-Wide Financial Statements - Continued

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities* - The governmental activities column consists of the District's general fund and special revenue fund (library). Activities for both funds are financed through the generation of investment income, rental income, and from an annual transfer from the proprietary fund (Electric Department).
- *Business-type activities* - The District's business-type activities consists of an Electric Department that charges fees to its respective customers for electric service.

Fund Financial Statements

Traditional users of governmental financial statements will find the fund financial statement presentation more familiar. The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major funds" – not the District as a whole. Funds are accounting devices that the District uses to monitor and report compliance with spending purposes (fund restrictions), spending limits (budget), and other fiscal accountability objectives.

The District has three kinds of funds

- *Governmental Funds* - The governmental activities column consists of the District's general fund and special revenue fund (library). Please refer to pages 14 through 17. District general fund activities are financed through the generation of rental income from the firehouse and transfers in from the electric department. Income from the library is primarily rental income. General fund expenditures consist of elected public officials fees, community service projects, annual accounting and professional fees, and meetings and printing expenses for the District. Library expenditures consisted primarily of expenditures for the operations of the library (classified as community service projects).
- *Proprietary Funds* - Services for which the District charges customers a fee are reported in proprietary funds through the District's Electric Department. Please refer to pages 20 through 22.
- *Fiduciary Funds* - Fiduciary funds account for assets received where the District acts in the capacity of a trustee. The Pension Trust fund (see pages 23 and 24) accounts for resources of the District's single-employer defined benefit pension plan.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

MANAGEMENT DISCUSSION AND ANALYSIS - Continued

Financial Analysis of the District as a Whole

DISTRICT'S NET POSITION							
	Governmental Activities		Business-type Activities		Totals		Total % Change
	2018	2017	2018	2017	2018	2017	2018-2017
Current and Other Assets	\$ 158,158	\$ 166,022	\$13,114,881	\$10,781,940	\$13,273,039	\$10,947,962	21.24%
Capital Assets	<u>1,039,266</u>	<u>998,288</u>	<u>13,053,997</u>	<u>13,079,820</u>	<u>14,093,263</u>	<u>14,078,108</u>	0.11%
Total Assets	1,197,424	1,164,310	26,168,878	23,861,760	27,366,302	25,026,070	9.35%
Deferred Outflows of Resources	-0-	-0-	406,889	522,396	406,889	522,396	-22.11%
Liabilities	44,498	6,857	13,853,807	8,947,805	13,898,305	8,954,662	55.21%
Total Liabilities	44,498	6,857	13,853,807	8,947,805	13,898,305	8,954,662	55.21%
Deferred Inflows of Resources	-0-	-0-	268,201	125,568	268,201	125,568	113.59%
Net Position:							
Net Investment in Capital Assets	1,039,266	998,288	13,165,696	13,079,820	14,204,962	14,078,108	0.90%
Restricted	-0-	-0-	-0-	1,850,000	-0-	1,850,000	-100.00%
Unrestricted	<u>113,660</u>	<u>159,165</u>	<u>(711,937)</u>	<u>380,963</u>	<u>(598,277)</u>	<u>540,128</u>	-210.77%
Total Net Position	<u>\$1,152,926</u>	<u>\$1,157,453</u>	<u>\$12,453,759</u>	<u>\$15,310,783</u>	<u>\$13,606,685</u>	<u>\$16,468,236</u>	-17.38%

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE - Continued

CHANGES IN NET POSITION				
	6/30/2018		6/30/2017	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Revenues				
Charges for Services	\$ -0-	\$11,201,983	\$ -0-	\$11,110,732
General Revenues				
Rental Income	67,215	-0-	70,811	-0-
Gain or Loss Disposition of Assets	-0-	8,121	-0-	4,599
Investment Income	315	28,775	295	70,387
Miscellaneous	5,664	1,155,262	3,556	9,462
Total Revenues	\$ 73,194	\$12,394,141	\$ 74,662	\$11,195,180
Expenses				
Primary Government:				
General Government	\$ 19,892	\$ -0-	\$ 27,544	\$ -0-
Community Service	346,258	-0-	305,142	-0-
Business-type Activities				
Expenses				
Electric Department	-0-	10,284,611	-0-	11,062,773
Total Expenses	\$ 366,150	\$10,284,611	\$ 332,686	\$11,062,773
Transfers	288,429	(288,429)	279,881	(279,881)
Increase (Decrease) in Net Position	(4,527)	1,821,101	21,857	(147,474)
Net Position - Beginning	1,157,453	15,310,783	1,135,596	15,458,257
Prior Period Adjustment	-0-	(4,678,125)	-0-	-0-
Restated Net Position – Beginning	-0-	-0-	-0-	-0-
Net Position - Ending	\$1,152,926	\$12,453,759	\$1,157,453	\$15,310,783

The District's total net position of \$13,606,685 decreased \$2,861,551 or 17.38%. The District's governmental activities net position decreased by \$4,527, while the business-type activities' (Electric Department's) net position decreased by \$2,857,024 or 18.66%. The majority of this decrease is due to a \$4,678,125 prior period adjustment in relation to the new GASB 75 requirements for Reporting for Postemployment Benefits. This prior period adjustment was offset during the current year through the Electric Department's results of operations as well as equity distributions received from the Connecticut Municipal Electric Energy Cooperative (CMEEC) its present energy supplier. These distributions totaled \$1,138,992 during the current year.

Governmental Activities: Major revenue/expense factors include the following:

The District's governmental activities remained fairly consistent from fiscal 2017 to 2018. Rental Income decreased 5.08% or \$3,596 to \$67,215. Investment income experienced a \$20 increase from \$2950 in the prior year 2017 to \$315 in 2018. Miscellaneous revenues increased \$2,108 or 59.28% from \$3,556 in 2017 to \$5,664 in 2018. General expenditures decreased \$7,652 or 27.78% from \$27,544 in 2017 to \$19,892 in 2018. Community service expenditures increased \$41,116 from \$305,142 in 2017 to \$346,258 in 2018. Transfers to the governmental activities from the business-type activities increased by \$8,548

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE - Continued

Governmental Activities: - Continued

from \$279,881 in 2017 to \$288,429 in 2018. At June 30, 2018 \$1,039,266 or 90.14% of the governmental activities' net position is invested in capital assets.

Business-Type Activities:

Electric operating revenues increased slightly by \$91,251 from \$11,110,732 in the prior year to \$11,201,983 in 2018. Net investment income decreased by \$41,612 from \$70,387 in 2017 to \$28,775 in 2018 mainly due to the change in fair market value of the investment account during the current year. Miscellaneous revenues increased from \$9,462 in fiscal 2017 to \$1,155,262 in 2018 due primarily to current year equity distributions from CMEEC totaling \$1,138,992. Total operating expense decreased by \$778,162 or 7.03% from \$11,062,773 in 2017 to \$10,284,611 in 2018. This decrease is mainly attributable to a decrease in the cost of purchased power with CMEEC from fiscal year 2017 to 2018.

General Fund Budgetary Highlights

The District made no changes from the original to the final budget. The year's actual operations resulted in a deficiency of revenues over expenditures of \$31,088. Please see budget to actual comparisons on page 18.

Special Revenue Fund (Library) Budgetary Highlights

The District made no changes from the original to the final budget. The year's actual operations resulted in a deficiency of revenues over expenditures of \$14,417. (Please see budget to actual comparison on page 19).

Capital Assets and Debt Administration

Capital Assets

At the end of 2018, the District had invested \$14,093,263 in a broad range of capital assets. This amount is net of accumulated depreciation. The net capital assets remained fairly consistent increasing by \$15,155 from the prior year. Please refer to page 67 for detail of the Electric Department's plant in service at June 30, 2018 and Note 4 to the financial statements that details both plant in service and non-utility property of the entire District.

Other Liabilities

The Electric Department has an established "Power Sales Contract" for the Supply of Electric Power and Energy with CMEEC. Under this contract the Electric Department has agreed to maintain electric rates that, together with other sources of revenue, will provide sufficient revenues to meet its payment obligation to CMEEC under the contract. As a member of CMEEC the Electric Department is responsible for their share of certain costs that may exceed reserves, and/or insurance coverages. The impact of these costs on operations is

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Capital Assets and Debt Administration - Continued

Other Liabilities - Continued

unknown. The Electric Department is responsible for the repayment of a portion of CMEEC's bonded debt. As of June 30, 2018 the outstanding CMEEC obligation is \$3,175,025. This is offset by the Electric Department's rate stabilization fund, which stabilizes the price of power to customers and provides for early payoff of the debt. As of June 30, 2018, the rate stabilization fund has a balance of \$5,652,554.

Economic Factors

The Electric Department customers pay a Fuel Adjustment Charge which may change upward or downward reflecting changes in the cost of power purchased by the Department. The rate in effect for the fuel charge during the fiscal year was as follows:

Fuel Charge

July 2017 – June 2018	\$0.023/KWH
-----------------------	-------------

Energy Conservation

In accordance with Bill #7501 passed by the General Assembly in 2005, the Electric Department began billing all customers one mil per KWH for energy conservation beginning January 1, 2006. This charge increased incrementally annually to 2.5 mils on January 1, 2011. The energy conservation charge was \$.0025/KWH in calendar year 2018. Revenues from this charge will be expended by the Electric Department on energy conservation programs within the District.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the General Manager's office at 2 Second Street, Norwalk, Connecticut.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

BASIC FINANCIAL STATEMENTS

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

GOVERNMENT-WIDE FINANCIAL STATEMENTS

THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
STATEMENT OF NET POSITION
JUNE 30, 2018

EXHIBIT A

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets			
Cash	\$ 172,534	\$ 3,548,981	\$ 3,721,515
Investments	-	1,991,843	1,991,843
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$0 and \$60,000, respectively	-	1,156,719	1,156,719
Internal Balances	(14,376)	14,376	-
Expenses Paid in Advance	-	88,338	88,338
Total Current Assets	158,158	6,800,257	6,958,415
Non-Current Assets			
Investment in CMEEC	-	122,220	122,220
Other Restricted Assets	-	5,652,554	5,652,554
Cash - Restricted	-	539,850	539,850
Capital Assets			
Plant In Service, Net of Accumulated Depreciation	1,039,266	12,868,202	13,907,468
Non-Utility Property, Net of Accumulated Depreciation	-	13,702	13,702
Construction Work-in-Progress	-	172,093	172,093
Total Non-Current Assets	1,039,266	19,368,621	20,407,887
TOTAL ASSETS	1,197,424	26,168,878	27,366,302
DEFERRED OUTFLOWS OF RESOURCES	-	406,889	406,889
LIABILITIES			
Current Liabilities			
Line of Credit	-	-	-
Accounts Payable	44,498	537,569	582,067
Taxes Payable	-	99,575	99,575
Customer Deposits and Advances	-	533,954	533,954
Accrued Compensated Absences	-	94,762	94,762
Other Accrued Expenses	-	21,627	21,627
Other Current Liabilities	-	-	-
Total Current Liabilities	44,498	1,287,487	1,331,985
Non-Current Liabilities			
Deferred Revenue	-	5,652,554	5,652,554
Net OPEB Obligation	-	5,462,278	5,462,278
Net Pension Obligation	-	1,451,488	1,451,488
Total Non-Current Liabilities	-	12,566,320	12,566,320
TOTAL LIABILITIES	44,498	13,853,807	13,898,305
DEFERRED INFLOWS OF RESOURCES	-	268,201	268,201
NET POSITION			
Net Investment in Capital Assets	1,039,266	13,165,696	14,204,962
Unrestricted	113,660	(711,937)	(598,277)
TOTAL NET POSITION	\$ 1,152,926	\$ 12,453,759	\$ 13,606,685

THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

EXHIBIT B

Functions / Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Primary Government		
						Governmental Activities	Business-type Activities	Total
Primary government:								
Governmental Activities:								
Public Officials Fees	\$ 14,100	\$ -	\$ -	\$ -	\$ -	(14,100)	-	\$ (14,100)
Payroll Tax Expense	1,151	-	-	-	-	(1,151)	-	(1,151)
Community Service Projects	346,258	-	-	-	-	(346,258)	-	(346,258)
Accounting and Professional Fees	-	-	-	-	-	-	-	-
Meetings, Printers, and Other	4,641	-	-	-	-	(4,641)	-	(4,641)
In-kind Expenses	-	-	-	-	-	-	-	-
Total Governmental Activities	366,150	-	-	-	-	(366,150)	-	(366,150)
Business-type Activities:								
Electrical Facility	10,284,611	11,201,983	-	-	-	-	917,372	917,372
Total Business-type Activities	10,284,611	11,201,983	-	-	-	-	917,372	917,372
Total Primary Government	\$ 10,650,761	\$ 11,201,983	\$ -	\$ -	\$ -	(366,150)	\$ 917,372	\$ 551,222
General Revenues:								
Rental Income						\$ 67,215	\$ -	\$ 67,215
Gain (Loss) on Disposition of Utility Plant						-	8,121	8,121
Investment Income						315	38,098	38,413
Interest Expense						-	(9,323)	(9,323)
Other Income						5,664	1,155,262	1,160,926
In-kind Donations						-	-	-
Transfers						288,429	(288,429)	-
Total General Revenues, Special Items, and Transfers						361,623	903,729	1,265,352
Change in Net Position						(4,527)	1,821,101	1,816,574
Net Position - Beginning						1,157,453	15,310,783	16,468,236
Prior Period Adjustment						-	(4,678,125)	(4,678,125)
Restated Net Position						1,157,453	10,632,658	11,790,111
Net Position - Ending						1,152,926	12,453,759	13,606,685

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

FUND FINANCIAL STATEMENTS

THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

EXHIBIT C
Page 1 of 2

	General	Special Revenue	Total Governmental Funds
ASSETS			
Current Assets			
Cash	\$ 102,664	\$ 69,870	\$ 172,534
Expenses Paid in Advance	-	-	-
Total Current Assets	<u>102,664</u>	<u>69,870</u>	<u>172,534</u>
TOTAL ASSETS	<u>102,664</u>	<u>69,870</u>	<u>172,534</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Accounts Payable	44,498	-	44,498
Due to Electric Department	14,376	-	14,376
Capital Lease Obligations	-	-	-
Other Current Liabilities	-	-	-
TOTAL LIABILITIES	<u>58,874</u>	<u>-</u>	<u>58,874</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Assigned	-	69,870	69,870
Unassigned	<u>43,790</u>	<u>-</u>	<u>43,790</u>
TOTAL FUND BALANCES	<u>\$ 43,790</u>	<u>\$ 69,870</u>	<u>\$ 113,660</u>

THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

EXHIBIT C
Page 2 of 2

Amounts reported for governmental activities on the statement
of net position are different because:

Total fund balance per balance sheet - governmental funds	\$	113,660
---	----	---------

Capital assets used in governmental activities are not
financial resources and therefore are not reported
in the funds:

Cost of governmental capital assets	\$	1,218,449	
Accumulated depreciation on above capital assets		<u>179,183</u>	1,039,266

Net position of governmental activities		<u><u>\$</u></u>	<u>1,152,926</u>
--	--	------------------	------------------

**THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

EXHIBIT D

	General	Special Revenue	Total Governmental Funds
Revenues			
Rental Income	\$ 41,523	\$ 25,692	\$ 67,215
Interest Income	303	12	315
Other Income	-	5,664	5,664
In-kind Donations	-	-	-
Total Revenues	<u>41,826</u>	<u>31,368</u>	<u>73,194</u>
Expenditures			
Public Officials Fees	14,100	-	14,100
Payroll Tax Expense	1,151	-	1,151
Community Service Projects	91,313	235,785	327,098
Accounting and Professional Fees	-	-	-
Meetings, Printers, and Other	4,641	-	4,641
In-kind Expenses	-	-	-
Total Expenditures	<u>111,205</u>	<u>235,785</u>	<u>346,990</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(69,379)</u>	<u>(204,417)</u>	<u>(273,796)</u>
Other Financing Sources (Uses)			
Capital Expenditures	(60,138)	-	(60,138)
Transfer in from Enterprise Electric Department	288,429	-	288,429
Transfers Between Funds	(190,000)	190,000	-
Net Other Financing Sources (Uses)	<u>38,291</u>	<u>190,000</u>	<u>228,291</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(31,088)</u>	<u>(14,417)</u>	<u>(45,505)</u>
Fund Balance (Deficit) - Beginning of Year	<u>74,878</u>	<u>84,287</u>	<u>159,165</u>
Fund Balance - End of Year	<u>\$ 43,790</u>	<u>\$ 69,870</u>	<u>\$ 113,660</u>

See accompanying notes and accountant's report.

**THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

EXHIBIT E

Amounts reported for governmental activities in the statement
of activities are different because:

Net change in fund balances - total governmental funds	\$	(45,505)
--	----	----------

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of these
assets are allocated over their estimated useful lives
and reported as depreciation expense. Therefore, the
net of amounts paid for the purchase of capital assets for
the year ended June 30, 2018, of \$60,138 and current
year depreciation expense of \$19,160 is a reconciling item.

	<u>40,978</u>
--	---------------

Change in net position of governmental activities	\$	<u>(4,527)</u>
--	-----------	-----------------------

THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGETARY BASIS - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

EXHIBIT F

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues				
Rental Income	\$ 41,523	\$ 41,523	\$ 41,523	\$ -
Interest Income	325	325	303	(22)
Other Income	-	-	-	-
Total Revenues	<u>41,848</u>	<u>41,848</u>	<u>41,826</u>	<u>(22)</u>
Expenditures				
Salaries - Commissioners	10,500	10,500	10,500	-
Salary - Clerk	1,800	1,800	1,800	-
Salary - Treasurer	1,800	1,800	1,800	-
Payroll Tax Expense	1,079	1,079	1,151	(72)
Maintenance of Parks	22,000	22,000	21,505	495
East Norwalk Cemetery	20,000	20,000	19,595	405
East Norwalk Cemetery - Major/Capital	2,900	2,900	-	2,900
East Norwalk Library - Other	7,000	7,000	7,415	(415)
East Norwalk Library - Major/Capital	40,000	40,000	47,702	(7,702)
East Norwalk Library - Master Plan/Improvements	-	-	-	-
Holiday Events	7,500	7,500	4,959	2,541
Firehouse Expense	2,000	2,000	3,116	(1,116)
Firehouse Expense - Major/Capital	17,840	17,840	12,436	5,404
Concerts in the Park	33,000	33,000	26,123	6,877
Legal and Accounting Services	-	-	-	-
Annual Electors Meeting	4,600	4,600	4,641	(41)
District Newsletter Allowance	-	-	-	-
Other District Services	10,000	10,000	7,700	2,300
Contingencies	30,000	30,000	900	29,100
Total Expenditures	<u>212,019</u>	<u>212,019</u>	<u>171,343</u>	<u>40,676</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(170,171)</u>	<u>(170,171)</u>	<u>(129,517)</u>	<u>40,654</u>
Other Financing Sources (Uses)				
Transfer in from Electric Department	288,429	288,429	288,429	-
Transfer Out to Special Revenue Fund	(190,000)	(190,000)	(190,000)	-
Utilization of Prior Years Unexpended Funds	86,742	86,742	-	(86,742)
Net Other Financing Sources (Uses)	<u>185,171</u>	<u>185,171</u>	<u>98,429</u>	<u>(86,742)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>\$ 15,000</u>	<u>\$ 15,000</u>	<u>(31,088)</u>	<u>\$ (46,088)</u>
Fund Balance (Deficit) - Beginning of Year			<u>74,878</u>	
Fund Balance - End of Year			<u>\$ 43,790</u>	

THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGETARY BASIS - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2018

EXHIBIT G

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues				
Rental Income	\$ 26,925	\$ 26,925	\$ 25,692	\$ (1,233)
Interest and Other Income	34,950	34,950	5,676	(29,274)
In-kind Donations	-	-	-	-
Total Revenues	<u>61,875</u>	<u>61,875</u>	<u>31,368</u>	<u>(30,507)</u>
Expenditures				
Personnel	130,500	130,500	111,841	18,659
Benefits and Taxes	44,500	44,500	34,430	10,070
Programming	38,225	38,225	36,555	1,670
Utilities	9,750	9,750	11,770	(2,020)
Building Maintenance Security and Repairs	15,250	15,250	21,358	(6,108)
Professional Fees	11,250	11,250	12,297	(1,047)
Promotions and Advertising	2,400	2,400	7,534	(5,134)
In-kind Expenses	-	-	-	-
Total Expenditures	<u>251,875</u>	<u>251,875</u>	<u>235,785</u>	<u>16,090</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(190,000)</u>	<u>(190,000)</u>	<u>(204,417)</u>	<u>(14,417)</u>
Other Financing Sources (Uses)				
Transfer in from General Fund	190,000	190,000	190,000	-
Capital Expenditures	-	-	-	-
Net Other Financing Sources (Uses)	<u>190,000</u>	<u>190,000</u>	<u>190,000</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14,417)</u>	<u>\$ (14,417)</u>
Fund Balance - Beginning of Year			<u>84,287</u>	
Fund Balance - End of Year			<u>\$ 69,870</u>	

**THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
STATEMENT OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2018**

EXHIBIT H

	Electrical Department
ASSETS	
Current Assets	
Cash	\$ 3,548,981
Investments	1,991,843
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$60,000	1,156,719
Due from Governmental Funds	14,376
Expenses Paid in Advance	88,338
Total Current Assets	<u>6,800,257</u>
Non-Current Assets	
Investment in CMEEC	122,220
Other Restricted Assets	5,652,554
Cash - Restricted	539,850
Capital Assets	
Plant In Service, Net of Accumulated Depreciation	12,868,202
Non-Utility Property, Net of Accumulated Depreciation	13,702
Construction Work in Progress	172,093
Total Non-Current Assets	<u>19,368,621</u>
TOTAL ASSETS	<u>26,168,878</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>406,889</u>
LIABILITIES	
Current Liabilities	
Line of Credit	\$ -
Accounts Payable	537,569
Taxes Payable	99,575
Customer Deposits and Advances	533,954
Accrued Compensated Absences	94,762
Other Accrued Expenses	21,627
Total Current Liabilities	<u>1,287,487</u>
Non-Current Liabilities	
Deferred Revenue	5,652,554
Net OPEB Obligation	5,462,278
Net Pension Obligation	1,451,488
Total Non-Current Liabilities	<u>12,566,320</u>
TOTAL LIABILITIES	<u>13,853,807</u>
DEFERRED INFLOWS OF RESOURCES	<u>268,201</u>
NET POSITION	
Net Investment in Capital Assets	13,165,696
Unrestricted	(711,937)
TOTAL NET POSITION	<u>\$ 12,453,759</u>

**THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2018**

EXHIBIT I

	Electrical Department
Operating Revenues	
Residential Sales	\$ 4,115,349
Commercial Sales	2,739,429
Industrial Sales	1,041,314
Cervalis Sales	271,176
Water Pollution Control Plant	1,054,068
Private Security Lighting	101,257
Sales for Resale	568,017
Miscellaneous Service Revenue	472
Purchased Power Adjustment	1,310,901
Total Operating Revenues	<u>11,201,983</u>
Operating Expenses	
Electrical Power Purchased	5,691,591
Transmission	-
Distribution	302,215
Maintenance	503,567
Generation Expenses	98,532
Customer Service	327,861
Administration	2,120,565
Depreciation	848,098
Connecticut Gross Receipts Tax	392,182
Total Operating Expenses	<u>10,284,611</u>
Operating Income (Loss)	<u>917,372</u>
Nonoperating Revenue and Expenses	
Gain from Sale of Fixed Assets	8,121
Investment Income	60,760
Interest Expense	(9,323)
Unrealized Gain (Loss) on Investments	(22,662)
Other Income	1,155,262
Total Nonoperating Revenues and Expenses	<u>1,192,158</u>
Income (Loss) Before Operating Transfers	<u>2,109,530</u>
Operating Transfers	
Transfers Out	288,429
Net Operating Transfers	<u>288,429</u>
Change in Net Position	<u>1,821,101</u>
Net Position - Beginning	15,310,783
Prior Period Adjustment	(4,678,125)
Restated Net Position	<u>10,632,658</u>
Net Position - Ending	<u>\$ 12,453,759</u>

**THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2018**

EXHIBIT J

	Electrical Department
Cash Flows from Operating Activities	
Cash Received from Customers	\$ 11,343,378
Cash Payments to Suppliers, Vendors, and Contractors	(8,241,869)
Cash Payments to Employees for Payroll	(1,309,971)
Net Cash Provided by Operating Activities	<u>1,791,538</u>
Cash Flows from Noncapital Financing Activities	
Operating Transfers	(288,429)
Net Cash Used by Noncapital Financing Activities	<u>(288,429)</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of Property and Equipment	(1,056,037)
Proceeds from CMEEC	1,138,992
Net Payments on Line of Credit	-
Net Cash Provided by Capital and Related Financing Activities	<u>82,955</u>
Cash Flows from Investing Activities	
Payments Received from Loan Receivable	-
Acquisitions of Investments	(1,201,248)
Net Cash Used by Investing Activities	<u>(1,201,248)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	384,816
Cash and Cash Equivalents - Beginning of Year	<u>3,164,165</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 3,548,981</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ 917,372
Adjustments to Reconcile Operating Income (Loss) to net cash provided (used) by operating activities:	
Depreciation	848,098
Gain on Disposal of Assets	(8,121)
Unrealized Loss on Investments	22,662
Interest Expense	(9,323)
Changes in Assets and Liabilities:	
Receivables, net	125,761
Expenses Paid in Advance and Other Assets	2,684
Payables and Accrued Liabilities	(107,595)
Net Cash Provided by Operating Activities	<u><u>\$ 1,791,538</u></u>

**THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
STATEMENT OF PLAN NET POSITION - PENSION TRUST FUND
JUNE 30, 2018**

EXHIBIT K

ASSETS

Cash	\$	96,563
Investments, at Fair Value		
Certificates of Deposit		201,202
Municipal Obligations		438,349
Mutual Funds		<u>2,073,951</u>

TOTAL ASSETS		<u><u>2,810,065</u></u>
---------------------	--	-------------------------

DEFERRED OUTFLOWS OF RESOURCES		<u>-</u>
---------------------------------------	--	----------

TOTAL LIABILITIES		<u>-</u>
--------------------------	--	----------

DEFERRED INFLOWS OF RESOURCES		<u>-</u>
--------------------------------------	--	----------

NET POSITION HELD IN TRUST - RESTRICTED FOR PENSION BENEFITS	\$	<u><u>2,810,065</u></u>
---	----	-------------------------

**THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
STATEMENT OF CHANGES IN PLAN NET POSITION - PENSION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2018**

EXHIBIT L

ADDITIONS

Contributions:	
Employer	\$ 233,500
Total Contributions	<u>233,500</u>
Investment Income:	
Interest, Dividends and Capital Gains	106,777
Net Appreciation (Depreciation) in Fair Value of Investments	<u>81,205</u>
	187,982
Less: Trustee, Advisory and Administrative Fees	<u>(15,481)</u>
Net Investment Income (Loss)	<u>172,501</u>

TOTAL ADDITIONS (DEDUCTIONS)	<u>406,001</u>
-------------------------------------	----------------

DEDUCTIONS

Benefits	<u>135,458</u>
----------	----------------

TOTAL DEDUCTIONS	<u>135,458</u>
-------------------------	----------------

CHANGE IN NET POSITION	270,543
-------------------------------	---------

NET POSITION HELD IN TRUST - RESTRICTED FOR PENSION BENEFITS

BEGINNING OF YEAR	<u>2,539,522</u>
--------------------------	------------------

END OF YEAR	<u><u>\$ 2,810,065</u></u>
--------------------	----------------------------

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement:

The Third Taxing District of the City of Norwalk, Connecticut (the District) was incorporated in the year 1913. The District maintains various properties in the District and provides library, recreation and electric services to its residents. The District's financial statements are not included in the City of Norwalk's financial statements because the City does not have oversight responsibility for the above services. Oversight responsibility was determined on the basis of financial interdependence, governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters and scope of public services.

Government-wide and Fund Financial Statements:

The government-wide financial statements required by GASB pronouncements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its business-type activities. Governmental activities, which are supported by transfers from the business-type activities, are reported separately from the business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of any given function or segment, are offset by program revenues.

Separate fund financial statements are provided for the governmental funds (general fund and library special revenue fund), the proprietary fund (Electric Department), and pension trust funds. The pension trust fund is excluded from the government-wide financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and the pension trust fund financial statements. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The modified-accrual basis of accounting is used by the governmental fund types. Under the modified-accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred.

The government reports the following funds:

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governmental Fund

General Fund - The General Fund is the general operating fund of the District. All unrestricted resources except those required to be accounted for in another fund are accounted for in this fund. From this fund, general operating expenditures are paid.

Special Revenue Fund - This fund is used to account for the process of specific revenue sources (the District Library) that are legally restricted to expenditures for specific purposes.

Proprietary Funds

The District reports the following Enterprise Fund:

Electric Department - accounts for the operating activities of the District's electric utility services.

Additionally, the government reports the following fund type:

Pension Trust Fund - This fund reports fiduciary resources held in trust and the receipt, investment, and distribution of retirement contributions.

Budgetary Control:

Budgets and Budgetary Accounting – As set forth in the District Charter, the electors adopt an annual budget for the General Fund and Special Revenue Fund-Library. The annual budgets for the General Fund and Special Revenue Fund – Library, are prepared in accordance with the basis of accounting utilized by each fund. The Commissioners are authorized to transfer budgeted amounts within and among funds. All annual appropriations lapse at fiscal year-end.

Investments:

Investments are recorded at fair value based on quoted market prices.

Fund Changes and Transactions Between Funds:

Legally authorized transfers are treated as operating transfers and are included in the results of operations of both Governmental and Proprietary Funds. During the year ended June 30, 2018 District electors voted to authorize the transfer of \$288,429 as a transfer from the Proprietary Fund (Electrical Department) to the Governmental Funds.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governmental Fund Balance

In accordance with Governmental Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

- Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal vote of the District Electors and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the District Commissioners.
- Unassigned - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories.

The District's special revenue fund consists of the reporting of the District Library's operations. The Assigned Fund Balance amount of \$69,870 at June 30, 2018 represents the residual fund balance amount not reported as non-spendable, restricted or committed.

The District spends restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents / contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts Receivable and Provision for Bad Debts

The District utilizes the reserve method of accounting for its bad debts. The allowance for losses in the balance sheet is increased by charges to bad debt expense and decreased by charge-offs. Management's periodic evaluation of the adequacy of the allowance is based on the department's historical experience and known and related risks in the accounts receivable listing.

Significant receivables include amounts due from customers primarily for utility services.

	Governmental Funds	Proprietary Funds
Accounts Receivable	\$ -0-	\$1,216,719
Less: Allowance for Uncollectible Accounts	-0-	60,000
Net Accounts Receivable	\$ -0-	\$1,156,719

Plant in Service and Non-Utility Property (Governmental and Business-Type Activities):

Plant in Service and Non-Utility Property are recorded at cost. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of assets is recorded by removing cost and accumulated depreciation and charging the resulting gain or loss to income. Depreciation expense has been calculated using the straight-line method. The estimated useful lives are as follows:

	<u>Years</u>
Structures and improvements	10-50
Substation equipment	25
Generators	4-10
Poles, towers and equipment	25
Overhead conductors	25
Underground conduit	33-40
Underground conductors	10-40
Line transformers	25
Meters	15
Street lights and signals	10-20
Office furniture and equipment	3-10
Transportation equipment	3-10
Stores equipment	20
Tools, shop and yard equipment	20
Laboratory equipment	20
Communications equipment	5-10
Miscellaneous equipment	4-10
Computer software	4

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates:

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Deferred Revenue:

Deferred revenue is recognized resulting from an arrangement the District has with CMEEC (See Note 12).

Pension Plan Accounting:

Employer contributions to the plan are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Compensated Absences:

Electric Department employees accumulate vacation and sick leave hours for subsequent use or for payment upon the end of the calendar year. Vacation and sick leave expenses to be paid after year-end are accrued for time that was not taken by June 30, in the proprietary fund financial statement. The balance of \$94,762 is classified as current at June 30, 2018.

Statement of Cash Flows - Electric Department

In accordance with GASB 34, Electric uses the direct method of presenting cash flows for purpose of the statement of cash flows and considers all highly liquid investments with an original maturity value of ninety days or less to be cash equivalents. Restricted cash held in segregated bank accounts representing customer security deposits is considered cash for cash flow purposes.

Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary Net position of the District Electric Department's Pension Plan and additions to/deductions from the District Electric Department Pension Plan fiduciary net position have been determined on the same basis as they are reported by the District Electric Department Pension Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

GASB Pronouncements:

GASB Statement 20 requires that each government makes an election concerning proprietary funds. The Third Taxing District - City of Norwalk, Connecticut, has elected to apply FASB pronouncements and interpretations issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. After that date GASB pronouncements will solely be used.

NOTE 2 - CASH AND INVESTMENTS

Cash and cash equivalents are defined as cash and short-term, highly liquid investments that are both readily convertible to known amounts of cash and that are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Investments with original maturities of three months or less meet the definition of cash equivalents. Pursuant to state statute, the District may invest in cash funds with banks, obligations of the United States, and obligations of any state or political subdivision.

Cash Deposits

At June 30, 2018, the Third Taxing District, - City of Norwalk, Connecticut maintained cash deposits with financial institutions as follows:

	Bank Balances	Reconciled Balances
Governmental Activities (District General and Special Revenue Funds)	\$ 183,751	\$ 172,534
Business-Type Activities (Electric Department)	\$4,108,119	\$4,088,831
Pension Trust Fund	\$ 96,563	\$ 96,563

Custodial credit risk and concentrations of credit risk - Of the \$4,108,119 business-type activities bank balances, \$3,592,350 is uninsured and uncollateralized at June 30, 2018. \$3,793,835 or 92% of the June 30, 2018 bank balances for business-type activities are maintained at one financial institution, Patriot National Bank. The District does not address custodial credit risk or concentrations of credit risk in its deposits policy.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 2 - CASH AND INVESTMENTS - Continued

Investments:

At June 30, 2018, the District's reporting entity had the following investments:

Types of Investments	Fair Value/ Carrying Value	Cost	Average Credit Quality Ratings (1)	Segmented Time Distribution to Maturity
Business-Type Activities				
Equities/Mutual Funds	\$1,991,843	\$2,008,020	N/A	N/A
Total Business-Type Activities	\$1,991,843	\$2,008,020		
Pension Trust Fund				
Equities/Mutual Funds	\$2,073,951	\$2,107,095	N/A	N/A
Certificates of Deposit	201,201	198,775	N/A	N/A
Municipal Obligations	50,017	50,000	A+	Less than 1 year
Municipal Obligations	59,986	60,180	A1	1-3 years
Municipal Obligations	25,455	25,600	Aa2	Less than 1 year
Municipal Obligations	46,680	47,475	Aa2	1-3 years
Municipal Obligations	50,651	52,300	AA	1-3 years
Municipal Obligations	50,635	50,888	Aa3	Less than 1 year
Municipal Obligations	25,497	25,083	Aa2	1-3 years
Municipal Obligations	103,964	101,000	Aa3	5-10 years
Municipal Obligations	25,465	26,120	Aa2	3.25 years
Total Pension Trust Fund	\$2,713,502	\$2,744,516		

(1) - Ratings are provided where applicable to indicate associated credit risk.

N/A - Indicates not applicable.

Investment Policy - Primary Government

Investing is performed in accordance with investment policies complying with state statutes and the District's Charter. District funds may be invested in (1) direct obligations of the United States government; (2) certificates of deposit at savings and loan associations and federally insured banks; (3) savings accounts at savings and loan associations and banks; and (4) any bond, note or other indebtedness issued by state or political subdivisions.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy provides that to the extent practicable, investments are matched with anticipated cash flows. The District according to that policy has invested in U.S. Treasury notes and Government Agency Obligations with various maturities ranging from less than 1 year to 10 years, to maximize interest earned in conjunction with anticipated cash flows.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 2 - CASH AND INVESTMENTS - Continued

Investment Policy - Pension Trust Fund

The District's pension committee is responsible for the operation of the District's Pension Plan (the Plan), including overseeing investments made by the Plan Trustee. The primary investment objective of the Plan is the achievement of a high total return without undue risk of large losses. Total return is defined as income return plus capital appreciation.

Overall asset allocation is determined by the Trustee's expectation of inflation, interest rates and corporate profits. Historical and relative valuations will determine the strategic allocation among the major asset categories. Limits for the range of allocation to the asset categories valued by the asset's current fair market value, will be as follows:

- Equities - Not to exceed 60%
- Fixed Income - Not to exceed 75%
- Reserves - Not to exceed 30%

The above ranges are not to suggest sudden, dramatic shifts in the asset mix but instead represent flexible bands within which the asset mix may shift over investment cycles. The appropriate mix is reviewed quarterly with the Committee, who may make recommendations concerning investments in the portfolio.

Equity investments represent a diversified list of investments in the common stock of companies with market capitalizations of \$100 million and above. However, 20% of the equity portfolio may be invested in companies with market capitalizations of \$25 million or more. Valuation analysis will be employed to determine investment opportunity in conjunction with a fundamental appraisal of management strengths, past performance, demographic and secular trends. Economic sector allocations reflect the intent of the investment strategy and the weighting is monitored relative to similar sectors of the S&P 500. In no case shall the equity portion of the portfolio have (1) an investment of over 5%, at cost, of the Plan's assets in any one company; (2) an investment in securities with limited marketability or less than investment quality; or (3) include a transaction involving short sales, margin purchases, letter stock, private or direct placements, or any derivative instruments. Performance of this portion of the portfolio is measured against the performance of the S&P 500 index.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS - Continued

Investment Policy – Pension Trust Fund - Continued

Fixed Income represent a diversified list of high quality U.S. government, U.S. Agency and corporate obligations rated A or better. Intermediate range maturities (average 5 to 10 years) will represent the core portfolio. While the Committee realizes that shifts within the maturity range will occur in line with the Trustee's overall investment outlook, performance of the fixed income portion of the portfolio shall be measured against the performance of the Lehman Intermediate Bond Fund Index.

Reserves represent a diversified list of high quality U.S. government or A-1, P-1 instruments. Since reserves are also required for distributions, they will be used in concert with overall strategy and withdrawal needs.

The investment performance of the Plan's portfolio is reviewed by the District's Committee on a quarterly basis. A representative of the Trustee meets with the Pension Committee at least once a year to review past investment performance, the investment outlook and the strategy planned to achieve the portfolio objectives.

Custodial credit risk and concentration of credit risk - The \$2,713,502 carrying amount of the Pension Trust Fund investments at June 30, 2018 are defined as insured or registered or securities held by the entity or its agent in the entity's name.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy of diversifying funds among domestic common stock, U.S. Treasuries and corporate obligations, the latter two classifications with maturities ranging from less than 1 year through 10 years is in part designed to minimize interest rate risk to the extent practicable.

NOTE 3 - INVESTMENT IN CMEEC

Investment in Connecticut Municipal Electric Energy Cooperative (CMEEC), a related party, is valued at cost and represents the Electrical Department's pro rata equity interest in the Cooperative. The Electrical Department made this investment because of its desire for membership in the cooperative and benefits of such membership. The Electrical Department's purchases of power from CMEEC during 2018 was \$5,691,591 and is presented as electric power purchased in the accompanying Statement of Revenues and Expenses - Proprietary Fund.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 4 - PLANT IN SERVICE AND NON-UTILITY PROPERTY

Non-Utility Property

Non-utility property balances and activity for the year ended June 30, 2018 was as follows:

GOVERNMENTAL ACTIVITIES:

	Beginning Balance	Additions	Disposals/ Reclassifications	Ending Balance
Non-Utility Property not Being Depreciated:				
Land	\$ 790,045	\$ -0-	\$ -0-	\$ 790,045
Total	\$ 790,045	\$ -0-	\$ -0-	\$ 790,045
Non-Utility Property Being Depreciated:				
Buildings & Improvements	\$ 295,751	\$ 60,138	\$ -0-	\$ 355,889
Equipment	72,515	-0-	-0-	72,515
Total	\$ 368,266	\$ 60,138	\$ -0-	\$ 428,404
Less: Accumulated Depreciation:				
Buildings	\$(120,162)	\$(16,602)	\$ -0-	\$(136,764)
Equipment	(39,861)	(2,558)	-0-	(42,419)
Total	\$(160,023)	\$(19,160)	\$ -0-	\$(179,183)
Total Non-Utility Property Being Depreciated – Net	\$ 208,243	\$ 40,978	\$ -0-	249,221
Governmental Activities - Non-Utility Property – Net	\$ 998,288	\$ 40,978	\$ -0-	\$1,039,266

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 4 - PLANT IN SERVICE AND NON-UTILITY PROPERTY - Continued

Non-Utility Property - Continued

BUSINESS TYPE ACTIVITIES:

	Beginning Balance	Additions	Disposals/ Reclassifications	Ending Balance
Non-Utility Property not Being Depreciated:				
Land	\$13,702	\$ -0-	\$ -0-	\$13,702
Business Type Activities - Non-Utility Property – Net	\$13,702	\$ -0-	\$ -0-	\$13,702

Depreciation Expense was charged to Governmental Functions as follows:

Community Service Projects	\$19,160
Total Depreciation Expense - Governmental Activities	\$19,160

Plant in Service

Plant in service balances and activity for the year ended June 30, 2018 was as follows:

GOVERNMENTAL ACTIVITIES:

	Beginning Balance	Additions	Disposals/ Reclassifications	Ending Balance
Plant in Service not Being Depreciated	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Plant in Service Being Depreciated	\$ -0-	\$ -0-	\$ -0-	\$ -0-

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 4 – PLANT IN SERVICE AND NON-UTILITY PROPERTY – Continued

Plant in Service - Continued

BUSINESS TYPE ACTIVITIES:

	Beginning Balance	Additions	Disposals/ Reclassifications	Ending Balance
Plant in Service not Being Depreciated:				
Franchise and Consents	\$ 34,300	\$ -0-	\$ -0-	\$ 34,300
Total	<u>\$ 34,300</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 34,300</u>
Plant in Service Being Depreciated:				
Generators	\$ 2,886,820	\$ -0-	\$ -0-	\$ 2,886,820
Transmission Plant	3,488,049	-0-	-0-	3,488,049
Distribution Plant	11,566,324	1,490,427	(146,746)	12,910,005
General Plant	<u>1,802,607</u>	<u>115,342</u>	<u>(18,178)</u>	<u>1,899,771</u>
Total	<u>\$ 19,743,800</u>	<u>\$ 1,605,769</u>	<u>\$(164,924)</u>	<u>\$ 21,184,645</u>
Less: Accumulated Depreciation				
Generators	\$(2,718,541)	\$(164,338)	\$ -0-	\$(2,882,879)
Transmission Plant	(509,936)	(68,957)	-0-	(578,893)
Distribution Plant	(3,454,074)	(522,902)	(129,472)	(3,847,504)
General Plant	<u>(965,634)</u>	<u>(91,901)</u>	<u>(16,068)</u>	<u>(1,041,467)</u>
Total	<u>\$(7,648,185)</u>	<u>\$(848,098)</u>	<u>\$(145,540)</u>	<u>\$(8,350,743)</u>
Total Plant in Service Being Depreciated - Net	<u>\$ 12,095,615</u>	<u>\$ 757,671</u>	<u>\$(19,384)</u>	<u>\$ 12,833,902</u>
Business Type Activities - Plant in Service - Net	<u>\$ 12,129,915</u>	<u>\$ 757,671</u>	<u>\$(19,384)</u>	<u>\$ 12,868,202</u>
Construction Work-in-Progress	<u>\$ 936,203</u>	<u>\$ 300,062</u>	<u>\$(1,064,172)</u>	<u>\$ 172,093</u>

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 5 - SELF INSURANCE

The District provides a self-insurance plan which pays the deductible portion and any co-insurance requirements of the group health plan. Also, dental, eye care, and hearing aid coverage is available, subject to a combined annual limitation of \$3,000 per participant. A summary of the activity during 2018 follows:

Balance, Beginning	\$ -0-
Current year claims and changes in estimates	76,183
Claim payments	(76,183)
Balance, Ending	\$ -0-

There have been no significant reductions in insurance coverages during the fiscal year 2018. Settled claims have not exceeded commercial excess coverages in any of the past three years.

NOTE 6 - CUSTOMER DEPOSITS AND ADVANCES

Some customers are required by the Electrical Department to post deposits against their future liability. These deposits are held in an interest bearing account until such time as they are either returned to the customer or used to satisfy said customer's outstanding electric bill. As of June 30, 2018, the District has \$539,850 available for the customer security deposit liability of \$533,954.

NOTE 7 – LINE OF CREDIT

The District has a \$500,000 line of credit with a local bank which permits the Company to borrow up to \$500,000 at a variable rate which was 5% at June 30, 2018. It is secured by all of the District's assets and expires on December 1, 2018. At June 30, 2018 the amount outstanding on the line of credit was \$-0-.

NOTE 8 - SUMMARY OF CHANGES IN LONG-TERM DEBT

	Balance 7/1/17	Issued	Retired	Balance 6/30/18	Due Within 1 Year
Governmental Activities:	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Business-Type Activities:					
Deferred Revenue	\$ 5,317,082	\$518,718	\$(183,246)	\$ 5,652,554	\$ -0-
Net OPEB Obligation	5,407,808	54,470	-0-	5,462,278	-0-
Net Pension Obligation	1,460,096	-0-	(8,608)	1,451,488	-0-
Totals	\$12,184,986	\$573,188	\$(191,854)	\$12,566,320	\$ -0-

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 - PENSION PLAN

General Information About the Pension Plan:

Method used to value investments. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Plan Description. The District's Pension Committee administers the District's Pension Plan – a single-employer defined benefit pension plan that provides retirement, disability, and death benefits to plan members and beneficiaries. All full-time employees are eligible to enter on the beginning of the month coincident with or following the later of the completion of 1 year of service and attainment of age 21.

Management of the District's plan is vested in the District's Pension Committee, which consists of three members who are the District's General Manager, Assistant General Manager and Senior Customer Account Analyst. The Pension Committee can recommend changes to the District's pension plan to the District Board of Commissioners.

Employees covered by benefit terms. At July 1, 2016, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	8
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	10
Total Members	21

Benefits provided. The normal retirement date for participants is at or after the attainment of age 65 with 10 years of the completion of continuous service. Each vested participant is entitled to a retirement benefit, and such benefit is equal to 2.5% of the average monthly compensation multiplied by the number of years of credited service. A participant may retire early on the first day of any month on or after the age of 55, with 10 years of credited service. Benefits fully vest on participants on or after 10 years of service and are reduced by .5% for each complete month by which commencement of benefit payments precedes the participant's normal retirement date.

Disability benefits are available for participants with 10 years of continuous service. If the participant is at least 55 on the date as of which he or she is entitled to a disability retirement benefit, the benefit is determined as for normal retirement (no early retirement factor is applied) but based on credited service and compensation prior to actual disability retirement. If the participant is less than 55 on the date as of which he or she is entitled to a disability benefit, the benefit is determined as in the immediately preceding sentence but is actuarially reduced for each month that the benefit starting date precedes his or her 55th birthday.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 - PENSION PLAN - Continued

General Information About the Pension Plan: - Continued

Pre-retirement death benefits are available for participants who are actively employed and for terminated employees with 10 years of service. The benefit is calculated as if the participant terminated, lived to the earliest date they could have retired, elected the 50% joint and Survivor Annuity option, then died. Then 50% continuation benefit is payable to the spouse (if any).

Contributions. The annual required contribution for the current year was determined as part of the July 1, 2016, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.0% investment rate of return (net of administrative expenses) and (b) projected salary increases of 2.6% per year plus a service based scale based on years of service (was 3% annual increase plus service based scale). The assumptions did not include postretirement benefit increases, which are not provided by the Plan. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis over 20 years. For the year ended June 30, 2018, the average active member contribution rate was 0 percent of annual pay, and the District's average contribution rate was 26.09 percent of covered payroll.

Investment policy. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the District's Pension Committee by a majority vote of its members. It is the policy of the District's Pension Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The District's investments policy is provided in more detail in Note 2 to the District's financial statements. The following was the District's adopted asset allocation policy as of June 30, 2016:

Asset Class	Target Allocation
Cash and Cash Equivalents	5.00
Intermediate Corporate	22.50
Intermediate Government	22.50
Large Cap Equity	21.00
Small/Mid Cap Equity	12.00
International Equity	10.00
Emerging Markets Equity	2.00
Real Estate	5.00
Total	<u>\$100.00</u>

Concentrations. The following investment represents more than 5% of the total Net Position Held in Trust for Pension Benefits:

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 - PENSION PLAN - Continued

General Information About the Pension Plan: - Continued

Concentrations. - Continued

Type of Investment	Description	Fair Market Value at June 30, 2018
Mutual Funds Equities	Vanguard 500 Index Fund	<u>\$171,615</u>

Rates of Return.

	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	6.86%	10.25%	-1.11%	2.60%	12.26%

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

The District's net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016.

Description of Significant Changes Prior to Year End

There were no significant plan changes since the last published valuation.

DROP Balances

Currently, there is no Deferred Retirement Option Plan (DROP). Therefore, the DROP balances are \$0.

Valuation Date and Roll Forward Process

The Plan Sponsor uses the July 1, 2016 Actuarial Valuation to calculate the ADEC for the fiscal year ending 2018.

The July 1, 2016 Actuarial Valuation directly calculated the July 1, 2016 Total pension Liability (TPL). The July 1, 2016 TPL was increased by service cost and interest and decreased by benefit payments to estimate the TPL as of June 30, 2018. The TPL as of June 30, 2018 was also adjusted to reflect any material plan changes after the valuation, if applicable.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 - PENSION PLAN - Continued

General Information About the Pension Plan: - Continued

Funding Policy

The Plan Sponsor uses the Entry Age Normal Actuarial Cost Method to calculate the plan liabilities. The funding Policy has two parts.

1. Normal Cost
2. Amortization of the Unfunded Actuarial liability (UAL)

Each year the Plan Sponsor pays the Normal Cost plus an amortization of the plan's UAL. For the July 1, 2016 Actuarial Valuation, a closed amortization period of 20 years was used.

Assumption Selection

The selections of all assumptions used in determining the total pension liability were made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

The actuarial assumptions used in the valuation were based on standard tables modified for certain plan features such as eligibility for full and early retirement where applicable and input from the plan sponsor. The plan does not have credible data on which to perform an experience study. As a result, a full actuarial experience study is not applicable.

Description of Actuarial Methods.

Asset Valuation Method

The Actuarial Value of assets used in the development of plan contributions phases in the recognition of differences between the actual return on Market Value and the expected return on Market Value over a five-year period at 20% per year. The method change was effective July 1, 2014.

Actuarial Cost Method

Entry Age Normal Actuarial Cost Method (level percentage of salary).

Normal Cost: Under this method, the normal cost is the sum of amounts necessary to fund each active member's normal retirement benefit if paid annually from entry age to assumed retirement age. Entry age is the age at which the employee would have been first eligible for the plan, if it had always been in effect. The normal cost for each participant is expected to remain a level percentage of the employee's salary.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 - PENSION PLAN - Continued

General Information About the Pension Plan: - Continued

Actuarial Cost Method - Continued

The normal cost for the plan is the difference between the total normal cost for the year and the anticipated member contributions for that year.

Past Service Liability: The present value of future benefits that relates to service before the valuation date is the total past service liability. The unfunded past service liability is the difference between the total past service liability and any assets (including accumulated member contributions). This amount is amortized over 20 years on a closed basis.

Experience Gains and Losses: All experience gains and losses (the financial effect of the difference between the actual experience during the prior period and the result expected by the actuarial assumptions for that prior period) appear directly in the past service liability and are amortized at the same rate the plan is amortizing the remaining unfunded past service liability.

Actuarial Assumptions.

	Year Ending June 30, 2018	Year Ending June 30, 2017
Investment rate of return (net of investment-related and administrative expenses)	7.00%	7.00%
Rate of compensation increase (including inflation)	2.6% plus service based scale	2.6% plus service based scale

Service-based component of compensation increases (for determination of benefits)

Service	Compensation Increase
0-4	1.50%
5-9	1.00%
10-14	0.50%
15+	0.00%

The plan does not have statistically credible data on which to form a rate of compensation increase assumption. The assumption is based on input from the plan sponsor regarding future expectations, as well as knowledge that younger employees generally earn higher annual percentage increases than older employees.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 - PENSION PLAN - Continued

General Information About the Pension Plan: - Continued

Actuarial Assumptions. - Continued

Inflation – 2.6%. This assumption is consistent with the Social Security Administration's current best estimate of the ultimate long-term (75 year horizon) annual percentage increase in CPI, as published in the 2016 OASDI Trustees Report.

Mortality. RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2016.

Prior Valuation:

Pre-retirement: RP-2000 Employees Table – male and female rates, set forward one year, projected by Scale MP to valuation date with no adjustment.

Post-retirement: RP-2000 Healthy Annuitants Table – male and female rates, set forward one year, projected by Scale MP to valuation date with no adjustment.

Mortality Improvement. Projected to date of decrement using Scale MP-2016 (generational mortality).

Prior Valuation: Projected to date of decrement using Scale MP (generational mortality).

We have selected this mortality assumption because it is based on the latest published pension mortality study released by the Society of Actuaries.

Retirement Age

Age	Rate
<62	0%
62-64	10%
65-69	20%
70-74	15%
75	100%

The actuarial assumption in regards to rates of retirement shown above are based on standard tables (MERS 2014) modified for certain plan features such as eligibility for full and early retirement where applicable and input from the plan sponsor. The plan does not have sufficiently credible data on which to perform an experience study.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 - PENSION PLAN - Continued

General Information About the Pension Plan: - Continued

Actuarial Assumptions. - Continued

Termination – Prior to Retirement

Years of Service				
Age	0	1	2	>=3
<=19	0.00%	0.00%	0.00%	0.00%
20	14.90%	12.50%	10.50%	9.30%
25	13.90%	11.25%	9.25%	6.80%
30	12.90%	10.00%	8.00%	5.05%
35	11.90%	8.90%	6.90%	3.95%
40	10.90%	7.90%	5.90%	3.25%
45	9.90%	7.05%	5.05%	2.75%
50	8.90%	6.30%	4.30%	2.75%
>=50	8.00%	5.00%	3.50%	1.75%

The actuarial assumptions in regards to rates of termination shown above are based on standard tables (Vaughn) modified for certain plan features such as eligibility for full and early retirement where applicable and input from the plan sponsor. The plan does not have sufficiently credible data on which to perform an experience study.

The mortality, inflation, and salary increase assumptions were updated to better reflect anticipated experience. The change in assumptions increased liabilities by about 1%.

Percent of active employees married. 80%

Spouse's Age. Husbands are assumed to be 3 years older than wives.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 - PENSION PLAN - Continued

General Information About the Pension Plan: - Continued

Actuarial Assumptions. - Continued

Target Allocation and Expected Rate of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*	Weighting
Cash and Cash Equivalents	5.00%	0.00%	0.00%
Intermediate Corporate	22.50%	2.25%	0.51%
Intermediate Government	22.50%	1.65%	0.37%
Large Cap Equity	21.00%	4.65%	0.98%
Small/Mid Cap Equity	12.00%	5.50%	0.66%
International Equity	10.00%	5.50%	0.55%
Emerging Market Equity	2.00%	6.50%	0.13%
Real Estate	5.00%	5.00%	0.25%
	100.00%		3.45%
Long-Term Inflation Expectation			2.60%
Long-Term Expected Nominal Return			6.05%

**Long-Term Returns are provided by HHIA. The returns are geometric means.*

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return are developed. Best estimates of the real rates of return for each major asset class are included in the pension plan's target asset allocation.

The information above is based on geometric means and does not reflect additional returns through investment selection, asset allocation and rebalancing. The results support a rate between 6.25% and 7.00%. An expected rate of return of 7.00% was used.

The July 1, 2016 Actuarial Valuation directly calculated the July 1, 2016 Total pension Liability (TPL). The July 1, 2016 TPL was increased by service cost and interest and decreased by benefit payments to estimate the TPL as of June 30, 2018.

Discount Rate

The long-term expected rate of return on investments may be used to discount liabilities to the extent that the plan's fiduciary net position and future contributions are projected to be sufficient to cover expected benefit payments and administrative expenses for current plan members. Projections of the plan's fiduciary net position incorporate all cash flows for contributions from

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 - PENSION PLAN - Continued

General Information About the Pension Plan: - Continued

Discount Rate - Continued

the employer and employee and administrative expenses. Professional judgment should be applied to the projections of contributions in circumstances where (a) contributions amounts are established by statute or contract or (b) a formal written policy exists. Consideration should also be given to the most recent five-year contribution history as key indicators of future contributions. It should not include cash flows for future plan members.

If the amount of the plan's fiduciary net position is projected to be greater than or equal to the benefit payments and administrative expenses made in that period, the actuarial present value of payments should be discounted using the long-term expected rate of return on those investments. A 20 year, high quality (AA/Aa or higher), tax-exempt municipal bond yield or index rate must be used to discount benefit payments for periods where the fiduciary net position is not projected to cover expected benefit payments and administrative expenses.

Plans that are projected to have sufficient fiduciary net position indefinitely will use the long-term expected return on investments to determine liabilities but will have to substantiate their projected solvency. GASB permits alternative methods to evaluate the sufficiency of the plan's net fiduciary position. Based on the plan's current net pension liability and current contribution policy, the plan's projected fiduciary net position will be sufficient to cover projected benefit payments and administrative expenses indefinitely. Therefore, since the fund is not projected to run out of money, the actuary used the 7.00% interest rate assumption to discount plan liabilities.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 - PENSION PLAN - Continued

General Information About the Pension Plan: - Continued

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of June 30, 2017	<u>\$3,999,618</u>	<u>\$2,539,522</u>	<u>\$1,460,096</u>
Changes for the Year:			
Service Cost	\$ 114,094	\$ -0-	\$ 114,094
Interest	283,299	-0-	283,299
Differences between expected and actual Experience	-0-	-0-	-0-
Contributions – Employer	-0-	233,500	(233,500)
Contributions – Member	-0-	-0-	-0-
Net Investment Income	-0-	176,384	(176,384)
Benefit payments, including refunds of member contributions	(135,458)	(135,458)	-0-
Administrative Expense	-0-	(3,883)	3,883
Other	-0-	-0-	-0-
Net Changes	<u>261,935</u>	<u>270,543</u>	<u>(8,608)</u>
Balances as of June 30, 2018	<u>\$4,261,553</u>	<u>\$2,810,065</u>	<u>\$1,451,488</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the District, calculated using the discount rate of 7.00%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability as of June 30, 2018	\$1,908,843	\$1,451,488	\$1,065,102

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 - PENSION PLAN - Continued

General Information About the Pension Plan: - Continued

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the fiscal year ended June 30, 2018, the recognized pension expense is \$298,544. As of June 30, 2018, deferred outflows of resources and deferred inflows of resources related to pensions are reported as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$320,990	\$(75,870)
Changes of assumptions	32,149	(7,843)
Net difference between projected and actual earnings on pension plan investments	53,750	-0-
Total	\$406,889	\$(83,713)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

Year Ended June 30:	
2019	\$ 78,273
2020	58,385
2021	62,760
2022	77,695
2023	46,063
Thereafter	-0-

Payable to the Pension Plan – At June 30, 2018, the District reported a payable of \$1,451,488 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)

General Information About the OPEB Plan

Plan Description – The District's defined benefit OPEB plan, the Third Taxing District of Norwalk, Connecticut Retirees Benefit Plan is a single employer defined benefit OPEB Plan administered by the District's Commissioners who have the authority to amend the Plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS - Continued

Benefits Provided

The District provides post-retirement health care benefits for substantially all of its electrical department full-time employees upon reaching retirement or early retirement age (as defined in the Pension Plan document). They are entitled to employer paid health benefits throughout retirement until death, at a benefit level equivalent to that which was in effect at the employee's time of retirement. When the retiree becomes eligible for Medicare the employer's obligation shall be limited to providing coverage for the difference between Medicare benefits and the benefits in effect at the employee's date of retirement. The employer's obligation to furnish retiree health benefits shall cease upon death of the retired employee.

The District currently funds post employment retirement benefits on a pay as you go basis. As of June 30, 2018, a trust fund has not been implemented to irrevocably separate assets to fund the liability associated with post employment benefits which will require the reporting of a trust fund in accordance with GASB Guidelines. The following is the current census of the District's benefit participants as of July 1, 2017:

Active Participants	10
Retirees	6
Total	16

The OPEB Expense for the year ended June 30, 2018 was \$412,174.

Total OPEB Liabilities

The District's total OPEB Liability of \$5,462,278 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance as of June 30, 2017	\$5,407,808
Changes for the Year:	
Service Cost	259,656
Interest	199,822
Differences Between Expected and Actual Experience	-0-
Changes of Benefit Terms	-0-
Changes of Assumptions	(231,792)
Benefit Payments	(173,216)
Net Changes	54,470
Balance as of June 30, 2018	\$5,462,278

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS - Continued

Changes in the Total OPEB Liability - Continued

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87%) or 1-percentage-point higher (4.87%) than the current discount rate:

	Current Discount Rate (3.87%)	1% Decrease (2.87%)	1% Increase (4.87%)
Total OPEB Liability as of June 30, 2018	\$5,462,278	\$6,324,191	\$4,760,450

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.5% decreasing to 1.6%) or 1-percentage-point higher (8.5% decreasing to 3.6%) than the current healthcare cost trend rate:

	Healthcare Cost Trend Rates (7.50% decreasing to 2.60%))	1% Decrease (6.50% decreasing to 1.60%)	1% Increase (8.50% decreasing to 3.60%)
Total OPEB Liability as of June 30, 2018	\$5,462,278	\$4,647,944	\$6,508,492

OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the recognized OPEB expense is \$412,174. As of June 30, 2018, deferred outflows and inflows of resources related to OPEB are reported as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -0-	\$ -0-
Changes of Assumptions	-0-	(184,488)
Total	\$ -0-	\$(184,488)

Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in the OPEB expense as follows:

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS - Continued

Changes in the Total OPEB Liability - Continued

Year Ended June 30,	
2019	\$(47,304)
2020	(47,304)
2021	(47,304)
2022	(42,576)
2023	-0-
Thereafter	-0-

Description of Significant Changes Prior to Year End

There were no significant plan changes since the last published valuation.

Valuation Date and Roll Forward Process

The July 1, 2017 Actuarial Valuation directly calculated the July 1, 2017 Total OPEB Liability (TOL). The July 1, 2017 TOL was increased by service cost and interest and decreased by benefit payments to estimate the TOL as of June 30, 2018. The TOL as of June 30, 2018 was also adjusted to reflect any material plan changes after the valuation, if applicable.

Funding Policy

The District's funding policy is to contribute the employer portion of retiree benefit payments annually.

Assumption Selection

The selections of all assumptions used in determining the total OPEB liability were made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

The actuarial assumptions used in the valuation were based on standard tables modified for certain plan features such as eligibility for full and early retirement where applicable and input from the District. The plan does not have credible data on which to perform an experience study. As a result, a full actuarial experience study is not applicable.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS - Continued

Description of Actuarial Methods.

Asset Valuation Method

Not applicable (unfunded plan).

Actuarial Cost Method

Entry Age Normal Actuarial Cost Method (level percentage of salary).

Normal Cost: Under this method, the normal cost is the sum of amounts necessary to fund each active member's normal retirement benefit if paid annually from entry age to assumed retirement age. Entry age is the age at which the employee would have been first eligible for the plan, if it had always been in effect. The normal cost for each participant is expected to remain a level percentage of the employee's salary. The normal cost for the plan is the difference between the total normal cost for the year and the anticipated member contributions for that year.

Past Service Liability: The present value of future benefits that relates to service before the valuation date is the total past service liability.

Description of Actuarial Assumptions

Changes in Actuarial Assumptions as of June 30, 2017

The valuation reflects changes in the actuarial assumptions listed below. (The assumptions used before and after these changes are more fully described in the next section).

- * Interest
- * Mortality
- * Inflation
- * Compensation Increase
- * Healthcare Cost Trend Rates

The assumptions indicated were changes to represent the Enrolled Actuary's current best estimate of anticipated experience of the plan.

Interest

3.87% (Prior: 3.58%)

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS - Continued

Interest - Continued

Since the OPEB plan is not funded, the selection of the discount rate is consistent with the GASB 74/75 standards linking the discount rate to the 20 year AA municipal bond index for unfunded OPEB plans. The discount rate used for this valuation is equal to the published Bond Buyer GO 20-Bond Municipal Index effective as of June 30, 2018.

Rate of Compensation Increase (Including Inflation)

2.60%. (Prior: 3.00%)

The plan does not have statistically credible data on which to form a rate of compensation increase assumption. The assumption is based on historical national wage increases and input from the District regarding future expectations.

Inflation

2.60%. (Prior: 3.00%)

The assumption is consistent with the Social Security Administration's current best estimate of the ultimate long-term (75-year horizon) annual percentage increase in CPI, as published in the 2017 OASDI Trustees Report.

The assumption was changed to better reflect expected experience.

Mortality

RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2017.

(Prior: Pre-retirement: RP-2000 Employee Table – male and female rates, set forward one year, projected by Scale MP-2014 to valuation date with no adjustment.

Post-retirement: RP-2000 Healthy Annuitants Table – male and female rates, set forward one year, projected by Scale MP-2014 to valuation date with no adjustment).

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS - Continued

Mortality Improvement

Projected to date of decrement using Scale MP-2017 (generational).

(Prior: Projected to date of decrement using Scale MP-2014 (generational)).

We have selected this mortality assumption because it is based on the latest published pension mortality study released by the Society of Actuaries.

Retirement

The assumed rates of retirement are as follows:

Age	Rate
<62	0%
62-64	10%
65-69	20%
70-74	15%
75	100%

The actuarial assumption in regards to rates of retirement shown above, are based on the rates used by the State of Connecticut Municipal Employee Retirement System actuaries.

Termination Prior to Retirement

Sample Withdrawal rates:

Age	Years of Service			
	0	1	2	>=3
<=19	0.00%	0.00%	0.00%	0.00%
20	14.90%	12.50%	10.50%	9.30%
25	13.90%	11.25%	9.25%	6.80%
30	12.90%	10.00%	8.00%	5.05%
35	11.90%	8.90%	6.90%	3.95%
40	10.90%	7.90%	5.90%	3.25%
45	9.90%	7.05%	5.05%	2.75%
50	8.90%	6.30%	4.30%	2.25%
>=55	8.00%	5.00%	3.50%	1.75%

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS - Continued

Termination Prior to Retirement - Continued

The actuarial assumption in regards to rates of withdrawal shown above, are based on standard tables modified for certain plan features such as eligibility for full and early retirement where applicable and input from the District. The plan does not have sufficiently credible data on which to perform an experience study.

Utilization

100% of current active members will elect medical coverage at retirement. 100% of pre-65 retirees will continue coverage after age 65.

Medical Eligibility

All participants are assumed to be Medicare Eligible.

Spousal Coverage

70% of active members are assumed to be married and elect spousal benefits at retirement with wives 3 years younger than husbands.

Healthcare Cost Trend Rates

7.5% in 2017, reducing by 0.5% each year to an ultimate rate of 4.6% per year rate for 2023 and later.

Healthcare cost trend rates reflect both the current and long-term outlook for increases in healthcare costs. The short-term rates are based on recent industry surveys, plan experience and near-term expectations. The long-term trend rate is based on general inflation assumption plus an adjustment to reflect expectations for long-term medical inflation

The trend rates were changed to align with the inflation assumption change and better reflect actual experience.

Premiums

Pre 65: Anthem Age banded Premiums.

Premiums were used as the basis for per capita costs.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS - Continued

Premiums - Continued

Post 65:

	2017-2018	2016-2017
Plan F	\$ 245.36	\$ 232.64
Rx	879.11	833.21
Total	<u>\$1,124.47</u>	<u>\$1,065.85</u>

Two Year Blended Average: \$1,095.16

Premiums were used as the basis for per capita costs.

	Single	Employee and Spouse
Dental/Vision: (self funded)	\$127	\$254

Patient Protection and Affordable Care Act (PPACA)

High Cost Plan Excise Tax ("Cadillac Tax"): Effective in 2022 there will be a 40% excise tax on per capita medical benefit costs in excess of certain thresholds, which (in 2018) are \$10,200 for single coverage and \$27,500 for family coverage for Medicare eligible retirees. Thresholds (in 2018) for retirees who are between ages 55 and 65 are \$11,850 and \$30,950 for single and family coverage respectfully. After 2018, the thresholds are indexed by CPI (CPI + 1% in 2018 only). CPI is assumed to equal the inflation assumption.

The impact of this future excise tax has been reflected in plan liabilities.

Other Requirements of PPACA

For purposes of this valuation, extended coverage for adult children and 100% coverage of preventive care are assumed to be reflected in per capita costs.

For purposes of this valuation, elimination of lifetime maximum benefits and removal of the limits on essential healthcare are assumed to have no impact on plan liabilities.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS - Continued

Plan Identification

Single-employer OPEB plan.

Retiree Medical Benefits

Eligibility

Eligibility is age 55 with 10 years of service for medical coverage at retirement.

Coverage

Pre-65 and Post-65 medical, Rx, Dental and vision.

Retiree Contribution

Pre-65: Retirees and spouses contribute the same premium contribution percentage as active employees, frozen at the percentage in effect on the employee's retirement date.

Post-65: Retirees and spouses pay nothing toward the cost of coverage.

Spousal Coverage

Spouses are covered for the retiree's lifetime.

NOTE 11 – PRIOR PERIOD ADJUSTMENT

The business type activities net position was restated to reflect the net OPEB obligation balance of \$5,407,808 at July 1, 2017.

NOTE 12 - COMMITMENT AND CONTINGENCIES

Operating Leases

The District is obligated under non-cancelable operating leases for certain office and transportation equipment. These lease commitments exist through June 30, 2022. Future minimum rental payments required under the non-cancelable operating leases are as follows:

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 12 - COMMITMENT AND CONTINGENCIES – Continued

Operating Leases - Continued

2019	\$9,876
2020	6,279
2021	4,929
2022	4,518

Rent expense included in operations relating to the non-cancelable operating leases amounted to \$25,050 for the year ended June 30, 2018.

CMEEC:

The Electric Department entered into a "Power Sales Contract for the Supply of Electric Power and Energy" (Power Contract) with the Connecticut Municipal Electric Energy Cooperative (CMEEC) its present energy supplier. Pursuant to this contract the Electric Department has covenanted to maintain electric rates that, together with other sources of revenue, will provide sufficient revenues to meet its payment obligation to CMEEC under the Power Contract.

Payments to CMEEC under the Power Contract may not be subordinated to any other obligation of the Electric Department.

The Power Contract was amended and restated as of January 1, 2000 resulting in rate stabilization monies, which were collected from the Electric Department and other CMEEC members in conjunction with the purchase of energy, to be apportioned to the individual purchasers of energy including the Electric Department. These funds are the Rate Stabilization Fund, the Economic Development Fund, and the Energy Efficiency and Environmental Stewardship Fund. CMEEC's bonded debt that was incurred to provide power supply for its members was also apportioned among its members.

Rate Stabilization Fund:

The Electric Department has rate stabilization funds held by CMEEC. Electric's balances of rate stabilization funds held by CMEEC was \$1,661,244 held in a trust account and \$3,991,310 held in a non-trust account at June 30, 2018.

Conservation and Load Management Fund

For the year ended June 30, 2005, a Conservation and Load Management Fund was created. The fund may be utilized by the District for investment in renewable energy sources and for conservation and load management programs so as to result in cost reductions for the District and its consumers. As the fund is unrestricted, the District has included the \$51,491 balance on their balance sheet at June 30, 2018.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 12 - COMMITMENT AND CONTINGENCIES – Continued

Economic Development Fund

The Electric Department also has on deposit at CMEEC an Economic Development Fund. Pursuant to Resolution 92-6 adopted by the CMEEC Board of Directors on January 23, 1992 this fund is for the stated purpose of assisting Member System activities which promote economic development and which help maintain the competitive standing of the Members' electric utility systems. The Electric Department expended \$0 of Economic Development Funds for the year ended June 30, 2018. The unrestricted balance available to the District at June 30, 2018 was \$150,327.

Renewable Resource Investment Fund

The Electric Department also has on deposit at CMEEC a Renewable Resource Investment Fund. Pursuant to Resolution 08-04 adopted by the CMEEC Board of Directors on February 28, 2008, this Fund is for the stated purpose of assisting member system activities which promote energy conservation. The amount in the account as of June 30, 2018 was \$112,199.

The monies in the rate stabilization fund as of June 30, 2018 totaling \$5,652,554 have been recorded as a restricted asset and, a deferred revenue in the accompanying proprietary fund balance sheet. The monies in the economic development fund, the conservation and load management fund and the renewable resource investment fund have been recorded as unrestricted cash in the accompanying proprietary fund balance sheet.

As a member of CMEEC, the Electric Department is responsible for their pro-rata share of CMEEC's shares of certain costs that may exceed reserves and/or insurance coverages. These costs and the impact on operations are unknown. The electrical department also has guaranteed a portion of CMEEC's bonded debt. The amount of debt guaranteed by the District as of June 30, 2018 was \$3,175,025 Electric's net obligation (bonded debt less Electric's share of the rate stabilization fund) is \$(2,477,529) at June 30, 2018.

Norden Park Generation:

The Third Taxing District's agreement with ISO New England, to provide capacity from the District's three 2 MW diesel generators located at Norden Park, expired on May 30, 2008. In order to obtain continuing income from these generators the District's Commission authorized installation of required state of the art pollution control equipment on the generators at a cost of \$900,000. The equipment was installed and the generators were bid into the ISO Locational Forward Reserve Market (LFRM) on June 1, 2008 with expected revenue of \$84,000 per month. Almost immediately a dispute arose with Connecticut Light & Power (CL&P), who is the reporting party to ISO, over the amount of capacity being delivered to ISO. As a result, anticipated revenues were not realized and penalties were assessed by the ISO. The generators were removed from the market on September 1, 2008 and following an agreement

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 12 - COMMITMENT AND CONTINGENCIES – Continued

Norden Park Generation: - Continued

with Connecticut Light & Power on February 18, 2009 were returned to the market on March 1, 2009. The February 18th Third Amendment to the Interconnection Agreement provides for the generators to operate until May 31, 2012. Before that time the Third Taxing District must petition the DPUC and receive approval to operate in the existing mode or must reconnect the generators at a capital cost of \$1.2 million. As a condition of the agreement the Third Taxing District must pay up to \$280,000 for switchgear needed by CL&P and must secure an easement and construct certain facilities needed by CL&P. The District has paid said amount and obtained the necessary easement. This Third Amendment was revised and restated on September 1, 2010 and provides among other things that: 1) the generators may operate until one year after the final decision by the DPUC on the method of interconnecting the generators; and 2) provided a favorable ruling is issued by the DPUC the District will pay CL&P up to an additional \$96,000. On June 1, 2010, the LFRM market revenue dropped to \$54,000 per month and on October 1, 2010, the revenue decreased to \$9,120 per month.

The DPUC approval was ordered on January 6, 2011 giving the generators the authority to operate for the duration of the interconnection agreement.

For the twelve month period ending June 30, 2018, revenues related to the operation of the Norden units was \$568,017.

The short term outlook (6-12 months) for the LFRM market in New England is expected to be fairly robust, depending on weather conditions and load growth. In response, the District has taken a more aggressive approach to maintaining and testing each of the Norden Generators and has begun to increase their operating efficiency in conjunction with CMEEC's Portfolio management staff. The Norden Lease expired on December 31, 2014 and has continued on a month to month basis.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

REQUIRED SUPPLEMENTARY INFORMATION

**THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST 5 FISCAL YEARS**

	2018	2017	2016	2015	2014
Total Pension Liability					
Service Cost	\$ 114,094	\$ 97,976	\$ 106,578	\$ 103,474	\$ 100,460
Interest	283,299	233,234	220,494	223,981	209,673
Changes of Benefit Terms	-	-	-	-	-
Differences Between Expected and Actual Experience	-	460,550	-	(227,606)	-
Changes of Assumptions	-	46,127	-	(23,527)	-
Benefit Payments Including Refunds of Member Contributions	(135,458)	(142,046)	(131,052)	(127,497)	(90,620)
Net Change in Total Pension Liability	261,935	695,841	196,020	(51,175)	219,513
Total Pension Liability - Beginning	3,999,618	3,303,777	3,107,757	3,158,932	2,939,419
Total Pension Liability - Ending: (a)	<u>\$ 4,261,553</u>	<u>\$ 3,999,618</u>	<u>\$ 3,303,777</u>	<u>\$ 3,107,757</u>	<u>\$ 3,158,932</u>
Plan Fiduciary Net Position					
Contributions - Employer	\$ 233,500	\$ 162,336	\$ 150,000	\$ 98,679	\$ 98,679
Contributions - Member	-	-	-	-	-
Net Investment Income	176,384	235,472	(25,625)	58,913	248,106
Benefit Payments Including Refunds of Member Contributions	(135,458)	(142,046)	(131,052)	(127,497)	(90,620)
Administrative Expenses	(3,883)	(7,136)	(8,583)	-	-
Other	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	270,543	248,626	(15,260)	30,095	256,165
Plan Fiduciary Net Position - Beginning	2,539,522	2,290,896	2,306,156	2,276,061	2,019,896
Plan Fiduciary Net Position - Ending: (b)	<u>\$ 2,810,065</u>	<u>\$ 2,539,522</u>	<u>\$ 2,290,896</u>	<u>\$ 2,306,156</u>	<u>\$ 2,276,061</u>
Net Pension Liability - Ending: (a)-(b)	<u>\$ 1,451,488</u>	<u>\$ 1,460,096</u>	<u>\$ 1,012,881</u>	<u>\$ 801,601</u>	<u>\$ 882,871</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	65.94%	63.49%	69.34%	74.21%	72.05%
Covered-Employee Payroll					
	\$ 894,917	\$ 872,239	\$ 732,401	\$ 711,069	\$ 724,371
Net Pension Liability as a Percentage of Covered-Employee Payroll	162.19%	167.40%	138.30%	112.73%	121.88%

Until a 10-year trend is compiled, this schedule will present information for those years for which information is available.

**THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF NET PENSION LIABILITY
LAST 6 FISCAL YEARS**

	2018	2017	2016	2015	2014	2013
Total Pension Liability	\$ 4,261,553	\$ 3,999,618	\$ 3,303,777	\$ 3,107,757	\$ 3,158,932	\$ 2,939,419
Plan Fiduciary Net Position						
	2,810,065	2,539,522	2,290,896	2,306,156	2,276,061	2,019,896
Net Pension Liability (Asset)	\$ 1,451,488	\$ 1,460,096	\$ 1,012,881	\$ 801,601	\$ 882,871	\$ 919,523
Plan Fiduciary Net Position as Percentage of						
Total Pension Liability	65.94%	63.49%	69.34%	74.21%	72.05%	68.72%
Covered-Employee Payroll	894,917	872,239	732,401	711,069	724,371	703,273
Net Pension Liability as a Percentage						
of Covered-Employee Payroll	162.19%	167.40%	138.30%	112.73%	121.88%	130.75%

Until a 10-year trend is compiled, this schedule will present information for those years for which information is available.

**THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION TRUST FUND
LAST 5 FISCAL YEARS**

	2018	2017	2016	2015	2014
Actuarially Determined Employer Contribution (ADEC)	\$ 233,469	\$ 162,328	\$ 159,351	\$ 148,809	\$ 145,690
Contributions in Relation to the Actuarially Determined Contribution	233,500	162,336	150,000	98,679	98,679
Contribution Deficiency (Excess)	\$ (31)	\$ (8)	\$ 9,351	\$ 50,130	\$ 47,011
Covered-Employee Payroll	\$ 894,917	\$ 872,239	\$ 732,401	\$ 711,069	\$ 724,371
Contributions as a Percentage of Covered-Employee Payroll	26.09%	18.61%	20.48%	13.88%	13.62%

Notes to Schedule

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry age normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	20 Years
Asset Valuation Method	Fair Value
Salary Increases	2.60% plus a service based scale ranging from 0-1.5% based on years of service
Investment Rate of Return	7.0%, net of pension plan investment and administrative expenses.
Retirement Age	Age 65 and 10 years of continuous service
Mortality	RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2016.
	Prior Valuation: Pre-retirement: RP2000 Employees Table - male and female rates, set forward one year, projected by Scale MP to valuation date with no adjustment.
	Post-retirement: RP2000 Healthy Annuitants Table - male and female rates, set forward one year, projected by Scale MP to valuation date with no adjustment.

Until a 10-year trend is compiled, this schedule will present information for those years for which information is available.

See Accountant's Report.

THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS PENSION TRUST FUND
LAST FIVE FISCAL YEARS

Year Ended June 30,	Annual Money-Weighted Rate of Return, Net of <u>Investment Expense</u>
2014	12.26%
2015	2.60%
2016	-1.11%
2017	10.25%
2018	6.86%

Until a 10-year trend is compiled, this schedule will present information for those years for which information is available.

THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
LAST FISCAL YEAR

Total OPEB Liability	<u>2018</u>
Service Cost	\$ 259,656
Interest	199,822
Changes of Benefit Terms	0
Differences Between Expected and Actual Experience	0
Changes of Assumptions	(231,792)
Benefit Payments	<u>(173,216)</u>
Net Change in Total OPEB Liability	54,470
Total OPEB Liability - Beginning	<u>5,407,808</u>
Total OPEB Liability - Ending	<u><u>\$ 5,462,278</u></u>
Covered payroll	\$ 909,421
Total OPEB Liability as a % of Covered Payroll	600.63%

See Footnote 10 for changes in benefit terms and changes in plan assumptions.

Until a 10-year trend is compiled, this schedule will present information for those years for which information is available.

**THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY
LAST FISCAL YEAR**

	<u>Total OPEB Liability</u>
Balance as of June 30, 2017	\$ <u>5,407,808</u>
Changes for the Year:	
Service Cost	259,656
Interest	199,822
Differences Between Expected and Actual Experience	-
Changes of Benefit Terms	-
Changes of Assumptions	(231,792)
Benefit Payments	<u>(173,216)</u>
Net Changes	<u>54,470</u>
Balance as of June 30, 2018	\$ <u><u>5,462,278</u></u>

Until a 10-year trend is compiled, this schedule will present information for those years for which information is available.

THIRD TAXING DISTRICT – CITY OF NORWALK, CONNECTICUT

**SUPPLEMENTARY COMBINING AND INDIVIDUAL
FUND SCHEDULES**

THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
SCHEDULE OF UTILITY PLANT
JUNE 30, 2018

	Utility Plant			Accumulated Depreciation			Net Book Value June 30, 2018
	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Balance July 1, 2017	Additions	
Intangible Assets							
Franchise and Consents	\$ 34,300	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,300
Generation							
Generators	2,886,820	-	-	2,886,820	2,718,541	164,338	3,941
Transmission Plant							
Land and Land Rights	1,487,395	-	-	1,487,395	-	-	1,487,395
Structures & Improvements	83,509	-	-	83,509	72,362	809	10,338
Underground Conduit	69,021	-	-	69,021	64,556	196	4,269
Underground Conductors	245,307	-	-	245,307	148,626	3,840	92,841
Cervallis Data Center Facilities	1,602,817	-	-	1,602,817	224,392	64,112	1,314,313
Distribution Plant							
Structures and Improvements	368,631	-	-	368,631	276,454	7,859	84,318
Substation Equipment	7,194,708	1,355,133	(37,138)	8,512,703	1,190,771	340,508	7,010,111
Generator	18,370	-	-	18,370	16,556	906	908
Poles, Towers & Equipment	605,102	38,609	(26,574)	617,137	344,664	24,686	270,426
Overhead Conductors	605,086	10,758	(14,211)	601,633	257,754	21,237	336,853
Underground Conduit	300,359	-	-	300,359	203,392	6,065	90,902
Underground Conductors	410,005	2,974	-	412,979	68,743	10,258	333,978
Line Transformers	567,952	33,259	(26,180)	575,031	253,886	23,000	324,325
Meters	753,467	38,317	(30,554)	761,230	403,403	43,470	340,023
Street Lights & Signals	404,310	11,377	(12,089)	403,598	109,819	40,062	265,806
Computer Software	338,334	-	-	338,334	328,632	4,851	4,851
General Plant							
Structures & Improvements	944,291	14,957	(11,048)	948,200	229,732	45,115	682,291
Office Furniture & Equipment	153,315	-	-	153,315	141,063	10,066	2,186
Transportation Equipment	493,356	90,000	-	583,356	464,618	22,500	96,238
Stores Equipment	1,504	-	-	1,504	1,501	3	-
Tools, Shop & Yard Equipment	85,056	-	-	85,056	52,914	3,170	28,972
Laboratory Equipment	7,447	-	-	7,447	4,652	182	2,613
Communications Equipment	28,262	8,685	(7,130)	29,817	16,504	5,076	15,367
Miscellaneous Equipment	89,376	1,700	-	91,076	54,650	5,789	30,637
TOTAL UTILITY PLANT	\$ 19,778,100	\$ 1,605,769	\$ (164,924)	\$ 21,218,945	\$ 7,648,185	\$ 848,098	\$ 12,868,202

**THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
SCHEDULE OF VARIOUS OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018**

	Electrical Department
Distribution	
Substation Payroll	\$ 146,969
Overhead and Underground Lines	48,385
Street Lights and Signal Systems	-
Meters	33
ISO Load Shed Program	-
Miscellaneous	106,828
Total Distribution	\$ 302,215
Maintenance	
Station Equipment	\$ 19,534
Overhead Lines	32,993
Line Transformers	-
Street Lights and Signal Systems	-
Underground Lines	-
Meters	5,621
Payroll	417,244
Miscellaneous	28,175
Total Maintenance	\$ 503,567
Customer Service	
Meter Reading	\$ 115,385
Customer Records and Collections	212,476
Bad Debt Expense	-
Total Customer Service	\$ 327,861
Administration	
Administrative Salaries	\$ 415,147
General Expense	67,892
Property and Casualty Insurance	126,021
Workmen's Compensation Insurance	25,620
Disability Insurance	4,907
Office Expense	55,403
Outside Services	248,112
Pension and Employee Benefits	1,082,380
Promotions	45,814
Company Trucks and Auto	34,572
Regulatory Expense	14,697
Total Administration	\$ 2,120,565

**THIRD TAXING DISTRICT - CITY OF NORWALK, CONNECTICUT
SCHEDULE OF VARIOUS ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018**

	Electrical Department
Outside Services	
Computer System Analyst and Programming	\$ 47,361
Legal Fees (General)	27,961
Financial Audit Fees	21,900
Accounting Services	43,354
Pension Plan Actuarial and Legal Fees	15,900
Labor Law Attorneys	-
Repairs and Maintenance	38,621
Miscellaneous	-
Engineering	21,015
Personnel Recruitment Charges	32,000
Total Outside Services	\$ 248,112
Pension and Employee Benefits	
OPEB Expense	\$ 412,174
Employee Health and Disability Programs	279,608
Pension Expense	298,544
Pension per Contract	2,308
Payroll Taxes	89,746
Total Pension and Employee Benefits	\$ 1,082,380
General Expenses	
Travel and Lodging	\$ 3,475
Seminars and Training	11,971
Miscellaneous	52,446
Total General Expenses	\$ 67,892